

Message Text

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P 130348Z JUL 78
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 8400
INFO AMEMBASSY JAKARTA PRIORITY

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USADB

FOR NAC AGENCIES

EO 11652:NA
TAGS: EAID, EFIN, ADB, ID
SUBJECT: PROPOSED ADB LOAN - THIRD ROAD PROJECT
(INDONESIA)

SUMMARY: ADB MANAGEMENT PROPOSING DOLLARS 34.0 MILLION
ORDINARY CAPITAL LOAN TO INDONESIA FOR A ROAD PROJECT.
THE PROPOSED PROJECT IS DIVIDED INTO TWO PARTS: 1) IM-
PROVEMENT OF 420 KM OF ROADS IN EAST JAVA, AND 2) PRO-
VISION OF CONSULTANT'S SERVICES FOR FEASIBILITY AND
ENGINEERING DESIGNS FOR SELECTED ROADS IN CENTRAL JAVA
AND PARTS OF KALIMANTAN. THE IMPROVEMENTS WILL PROVIDE
A NEW HIGH QUALITY ROAD SURFACE WHICH WILL ALLOW REDUCTION
OF VEHICLES OPERATING AND ROAD MAINTENANCE COSTS. PROJECT
APPEARS TECHNICALLY AND ECONOMICALLY FEASIBLE. USADB
THEREFORE RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R58-78 WITH ATTACHMENTS POUCHED ADDRESSEES
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JULY 5. LOAN SCHEDULED FOR BOARD CONSIDERATION JULY 25.

2. THE PROPOSED LOAN WILL COVER FOREIGN EXCHANGE COSTS
OF BOTH CONSTRUCTION AND PROJECT PREPARATION COMPONENTS
OF PROPOSED PROJECT. THE CONSTRUCTION COMPONENT IS COM-
PRISED OF THE FOLLOWING ELEMENTS (EXPRESSED IN DOLLARS):
1) CIVIL WORKS, 22.62 MILLION; 2) CONSULTANT'S SERVICES

FOR CONSTRUCTION SUPERVISION, 3.20 MILLION; AND 3) CONTINGENCIES, 7.73 MILLION. THE PROJECT PREPARATION COMPONENT (CONSULTANT'S SERVICES) IS COMPOSED OF FOLLOWING:

1) CENTRAL JAVA ROADS, .75 MILLION; 2) SOUTH, CENTRAL AND EAST KALIMANTAN ROADS, 0.60 MILLION; AND 3) CONTINGENCIES, 0.10 MILLION. THE BORROWER WILL BE THE REPUBLIC OF INDONESIA. THE LOAN WOULD BE MADE FROM ORDINARY CAPITAL RESOURCES AND HAVE A TERM OF 23 YEARS, INCLUDING A GRACE PERIOD OF 3 YEARS WITH AN INTEREST RATE OF 7.65 PERCENT. THE EXECUTING AGENCY FOR BOTH COMPONENTS WILL BE DIRECTORATE GENERAL OF HIGHWAYS (DGH). TOTAL COST OF PROJECT IS ESTIMATED AT DOLLARS 61.0 MILLION.

3. THE PROJECT ROADS (420 KM) BEING PROPOSED FOR IMPROVEMENT ARE LOCATED IN THE NORTHEASTERN AND NORTHWESTERN PARTS OF THE DENSELY POPULATED EAST JAVA PROVINCE. THESE ROADS SERVE PREDOMINANTLY AGRICULTURE-ORIENTED RURAL SETTLEMENTS, EITHER LOCATED ALONG THOSE ROADS OR ACCESSIBLE THROUGH CONNECTING DISTRICT ROADS, AND A NUMBER OF SMALL AND MEDIUM SIZED TOWNS. IT IS ESTIMATED THAT OUT OF ABOUT 6 MILLION PEOPLE LIVING IN THE IMMEDIATE INFLUENCE AREA OF THE PROJECT ROADS, ONLY 10 PERCENT RESIDE IN URBAN CENTERS.

4. THE TWO MAJOR ROAD SEGMENTS (COMPRISING 7 ROAD SECTIONS OVER A LENGTH OF 384 KM) ARE LINKED TO SURABAYA, LIMITED OFFICIAL USE

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THE SECOND LARGEST CITY (POPULATION 2.5 MILLION) AND GENERAL CARGO PORT OF INDONESIA. SURABAYA, AS THE ADMINISTRATIVE, TRADE AND INDUSTRIAL CENTER OF THE PROVINCE IS THE MAJOR TRAFFIC GENERATOR IN THE PROJECT AREA. SINCE SOME PROJECT ROAD SECTIONS SERVE AS MAJOR ARTERIAL ROUTES, A CONSIDERABLY LARGER NUMBER OF PEOPLE LIVING OUTSIDE THEIR IMMEDIATE INFLUENCE AREA WILL ALSO BE SERVED BY SOME OF THE ROADS.

5. THE INFLUENCE AREA OF THE PROJECT ROADS IS PREDOMINANTLY AGRICULTURAL AND PRINCIPAL CROPS ARE RICE, CASSAVA, MAIZE AND SUGARCANE. IT IS A MAJOR SURPLUS AREA FOR ALL OF THESE AGRICULTURAL COMMODITIES AND THE MARKETABLE SURPLUSES OF THESE ARE MOSTLY SENT TO SURABAYA OR THROUGH SURABAYA FOR ONWARD SHIPMENT TO DOMESTIC OR INTERNATIONAL DESTINATIONS. THE MAIN INTERNATIONAL EXPORTS ARE MAIZE, CASSAVA AND MOLASSES. RICE AND SUGAR ARE PRIMARILY CARRIED TO DOMESTIC DESTINATIONS. TEA, COFFEE, CATTLE, TEAK, ARE OTHER IMPORTANT EXPORTS FROM THE AREA. MOST OF THE INDUSTRIAL GOODS NEEDED IN THE PROJECT AREA ARE IMPORTED. THE SIGNIFICANT IMPORTS REQUIRING TRANSPORTATION FROM SURABAYA AND GRESIK ARE PETROLEUM PRODUCTS, FERTILIZERS,

CEMENT, STEEL, AND INDUSTRIAL CONSUMER GOODS. THE EXISTING SMALL INDUSTRIAL BASE, WHICH MOSTLY CONSISTS OF SUGAR AND RICE MILLING, IS MAINLY DEPENDENT UPON RAW MATERIALS WITHIN THE AREA AND NORMALLY REQUIRES SHORT HAULS FROM THE RURAL AREAS TO THE NEARBY TOWNS.

6. THE EXISTING NATIONAL AND PROVINCIAL ROADS IN THE PROJECT AREA ARE LARGELY IN POOR CONDITION AND THEY CANNOT IN MOST CASES BE MAINTAINED EFFICIENTLY AND SUFFICIENTLY ECONOMICALLY TO ALLOW A DESIRABLE LEVEL OF USAGE. THOUGH A VERY HIGH PERCENTAGE OF ROADS HAVE BITUMEN SURFACES, THE PAVEMENTS ARE STRUCTURALLY TOO WEAK TO PROVIDE ADEQUATELY FOR PRESENT DAY TRAFFIC, WHICH ON AVERAGE INCLUDES A HIGH PROPORTION OF BUSES AND TRUCKS (ABOUT 40 LIMITED OFFICIAL USE

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PERCENT). SHOULDERS ARE EITHER TOO NARROW OR NON-EXISTENT

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AND ROAD DRAINAGE IS GENERALLY INSUFFICIENT. MOST OF THE BRIDGES ARE NARROW AND EITHER DAMAGED OR STRUCTURALLY INADEQUATE, REQUIRING REPAIR OR REPLACEMENT.

7. THE SCOPE OF THE PROPOSED PROJECT IS AS FOLLOWS:

A) CONSTRUCTION COMPONENT; (I) THE IMPROVEMENT OF APPROXIMATELY 420 KM OF ROADS LOCATED IN EAST JAVA PROVINCE, COMPRISING NATIONAL ROADS (256 KM), PROVINCIAL ROADS (135 KM) AND DISTRICT ROADS (29 KM); (II) THE PROVISION OF CONSULTANTS' SERVICES FOR CONSTRUCTION SUPERVISION OF THESE ROADS. B) PROJECT PREPARATION COMPONENT; (I) THE REVIEW AND UPDATING OF THE EARLIER FEASIBILITY STUDIES FOR CERTAIN ROAD SECTIONS AND PREPARATION OF PRELIMINARY ENGINEERING AND DETAILED DESIGNS FOR SELECTED ROADS IN CENTRAL JAVA PROVINCE; (II) PREPARATION OF PRELIMINARY ENGINEERING AND DETAILED DESIGNS FOR IMPROVEMENT OF SELECTED ROADS IN SOUTH, CENTRAL AND EAST KALIMANTAN PROVINCES.

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8. THE IMPROVEMENTS, APPROPRIATELY DETERMINED FOR EACH ROAD SECTION ACCORDING TO THE CONDITION OF THE EXISTING ROAD AND IN THE LIGHT OF FORECAST TRAFFIC, WILL PROVIDE MAINLY FOR THE STRENGTHENING AND/OR RESURFACING OF THE EXISTING PAVEMENTS, WIDENING OF SHOULDERS AND IMPROVING ROADSIDE DRAINAGE. ALSO, SUBSTANDARD BRIDGES WILL BE EITHER REPLACED OR REPAIRED. DETAILED ENGINEERING DESIGN, COST ESTIMATES AND TENDER DOCUMENTS FOR THE PROJECT ROADS WERE PREPARED BY FOREIGN CONSULTANTS ASSISTED BY LOCAL ENGINEERS PROVIDED THROUGH LOCAL CONSULTING FIRMS.

9. THE EXECUTING AGENCY FOR BOTH COMPONENTS OF THE PROJECT WILL BE THE DIRECTORATE GENERAL OF HIGHWAYS (DGH). DGH WAS THE EXECUTING AGENCY FOR TWO COMPLETED BANK-FINANCED TECHNICAL ASSISTANCE PROJECTS: FEASIBILITY STUDY FOR IMPROVEMENTS OF THE SURABAYA-MALANG ROAD AND JAVA ROAD IMPROVEMENT STUDY; IT IS ALSO THE EXECUTING AGENCY FOR TWO ONGOING LOAN PROJECTS: ROAD IMPROVEMENT PROJECT AND SECOND ROAD PROJECT. ALTHOUGH SOME MINOR DELAYS HAVE BEEN ENCOUNTERED, THE IMPLEMENTATION OF ALL FOUR PROJECTS HAS BEEN SATISFACTORY AND THE EXECUTING AGENCY HAS SO FAR COMPLIED WITH THE RELEVANT LOAN COVENANTS.

10. IN ADDITION TO THE EXPERIENCE GAINED THROUGH THE IMPLEMENTATION OF BANK PROJECTS, DGH HAS BEEN THE EXECUTING AGENCY OF A NUMBER OF OTHER FOREIGN-ASSISTED AND GOVERNMENT-FINANCED PROJECTS AND ITS OFFICIALS ARE FULLY FAMILIAR WITH THE TECHNICAL AND ADMINISTRATIVE REQUIREMENTS OF PROJECT EXECUTION. THE ADB CONSIDERS THAT THE ARRANGEMENTS PROPOSED BY THE EXECUTING AGENCY ARE ADEQUATE AND THAT DGH IS FULLY CAPABLE OF IMPLEMENTING THE PROJECT

SATISFACTORILY IN ACCORDANCE WITH THE TERMS AND CONDITIONS
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OF THE PROPOSED LOAN.

11. THE FEASIBILITY STUDY FOR THE JAVA ROADS WAS CARRIED OUT BY N.D. LEA & ASSOCIATES (CANADA) AND THE REVIEW AND UPDATING OF THE SAME STUDY AND DETAILED ENGINEERING DESIGNS FOR PHASE I AND PHASE II JAVA ROADS HAVE BEEN CARRIED OUT BY N.D. LEA & ASSOCIATES IN ASSOCIATION WITH CHINA ENGINEERING (CECI, REPUBLIC OF CHINA) UNDER THE BANK-FINANCED ROAD IMPROVEMENT PROJECT. THESE FIRMS WERE SELECTED ACCORDING TO THE BANK'S GUIDELINES ON THE USES OF CONSULTANTS AND THEIR PRESENT CONTRACT ALSO COVERS THE CONSTRUCTION SUPERVISION OF THE ONGOING BANK-FINANCED PROJECT ROADS. ON THE OTHER HAND, THE ORIGINAL FEASIBILITY STUDY AND ITS REVIEW AND UPDATING AND DETAILED ENGINEERING DESIGN FOR THE GEMPOL-BANYUWANGI ROAD SECTION WERE UNDERTAKEN BY LYON ASSOCIATES, INC. (USA) UNDER AN IDA CREDIT.

12. THE GOVERNMENT IS SATISFIED WITH THE PERFORMANCE OF THESE FIRMS AND, IN THE LIGHT OF THEIR INVOLVEMENT IN THE PREPARATION OF THE PROJECT AND THEIR FAMILIARITY WITH THE RESPECTIVE PROJECT AREAS, THE GOVERNMENT HAS REQUESTED THE BANK'S CONCURRENCE TO ENTER INTO DIRECT NEGOTIATIONS WITH: (A) N.D. LEA & ASSOCIATES IN ASSOCIATION WITH CHINA ENGINEERING (CECI) FOR THE CONSTRUCTION SUPERVISION OF PROJECT ROADS ORIGINATING FROM THE PHASE II JAVA ROADS PACKAGE (164 KM); (B) LYON ASSOCIATES, INC. FOR CONSTRUCTION SUPERVISION OF THE GAMPOL-BANUYWANGI ROAD SECTION. THE ADB IS OF THE VIEW THAT THE CONSULTANTS ARE COMPETENT AND CONSIDERS IT APPROPRIATE FOR THE BARA IN

ACCORDANCE WITH PARA. 4.2 OF BANK GUIDELINES ON THE USES OF CONSULTANTS, TO ALLOW THE GOVERNMENT TO ENTER INTO DIRECT NEGOTIATIONS WITH THE CONSULTANTS FOR THESE SERVICES.

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13. THE GOVERNMENT HAS ASSURED THE BANK THAT AFTER THE COMPLETION OF THE PROJECT, IT WILL PROVIDE DGH, PROVINCIAL PUBLIC WORKS DEPARTMENT AND CONCERNED DISTRICT PUBLIC WORKS DEPARTMENTS (DPWDS) IN EAST JAVA WITH ALL SUCH FUNDS

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AND FACILITIES AS WILL BE REQUIRED FOR THE PROPER MAINTENANCE OF THE PROJECT ROADS. DGH WILL MAKE ALL THE APPROPRIATE ARRANGEMENTS SATISFACTORY TO THE BANK FOR THE PROPER MAINTENANCE OF ALL THE PROJECTS ROADS AFTER THE COMPLETION OF THEIR IMPROVEMENTS, BY PPWD AND THE CONCERNED DPWDS IN EAST JAVA, UNDER THE OVERALL RESPONSIBILITY OF DGH. IN THE LIGHT OF DGH'S PLANNED ACTION PROGRAMS FOR STRENGTHENING THE ROAD MAINTENANCE CAPACITY OF PPWD AND INCREASED ALLOCATION OF FUNDS FOR ROAD MAINTENANCE, THE BANK IS SATISFIED THAT THE GOVERNMENT WILL BE ABLE TO FULFILL ITS COMMITMENTS REGARDING THE MAINTENANCE OF THE PROJECT ROADS. THE GOVERNMENT HAS ALSO RECOGNIZED THE NEED TO MAINTAIN ROAD CAPACITIES AT FULL DESIGN LEVELS BY TAKING THE NECESSARY MEASURES TO OVERCOME TEMPORARY INTERRUPTIONS.

14. EACH OF THE PROJECT ROAD SECTIONS HAS BEEN SEPARATELY EVALUATED. ECONOMIC BENEFITS CONSIST OF SAVINGS IN VEHICLE OPERATING COSTS AND IN ROAD MAINTENANCE COSTS.

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THE ECONOMIC COSTS OF IMPROVEMENTS INCLUDE RIGHTS-OF-WAY, ENGINEERING, CONSTRUCTION AND SUPERVISION, AND PHYSICAL CONTINGENCIES. MOST OF THE ECONOMIC BENEFITS (90 TO 95 PERCENT OF TOTAL BENEFITS) WILL ACCRUE FROM REDUCTION IN VEHICLE OPERATING COSTS PRIMARILY AS A CONSEQUENCE OF IMPROVEMENTS TO THE ROAD SURFACE. THE EIRR FOR THE ROAD SECTIONS VARIES BETWEEN 17.4 PERCENT AND 39.6 PERCENT.

15. APART FROM SAVINGS IN THE MAINTENANCE BUDGET, THE PROJECT WILL HAVE DIRECT BENEFIT TO VEHICLE OPERATORS. A SIGNIFICANT NUMBER OF VEHICLE OPERATORS, ESPECIALLY IN THE LIGHT PASSENGER TRANSPORTATION CATEGORY, ARE SMALL SIZED, EACH OWNING VERY FEW VEHICLES. ALTHOUGH VEHICLE OPERATORS WILL BE THE DRECT BENEFICIARIES, IT CAN BE REASONABLY EXPECTED THAT SOME OF THE VEHICLE OPERATING COST SAVINGS ACCRUING TO COMMERCIAL VEHICLE OPERATORS WILL BE PASSED ON TO THE USERS OF THESE SERVICES. THE MAJORITY OF THE COMMERCIAL VEHICLE USERS BELONG TO RURAL AND SEMI-URBAN COMMUNITIES LIVING ALONG THE ROAD OR IN THE ADJOIN-ING AREAS, AND USE THESE SERVICES FOR SEVERAL PURPOSES INCLUDING TRANSPORTATION OF AGRICULTURAL INPUTS AND PRODUCE. THE EXPECTED IMPROVEMENTS IN QUALITY OF TRANS-PORT SERVICES WILL LEAD TO BETTER ACCESS TO AGRICULTURAL EXTENSION SERVICES WHICH WOULD HELP IN REALIZATION OF THE AGRICULTURAL GROWTH TARGETS AND HIGHER INCOME TO THE FARM-ERS. IN ADDITION, THE PROJECT ITSELF WILL EMPLOY 3,200 PERSONS RESULTING IN GENERATION OF ABOUT 80,000 MAN-MONTHS OF ADDITIONAL EMPLOYMENT OF UNSKILLED LABOR MOSTLY LOCALLY RECRUITED IN THE AREA. THE IMPROVED TRANSPORT SERVICES WILL ALSO PROVIDE THE RURAL POPULATION BETTER ACCESS TO HIGHER LEVELS OF HEALTH AND EDUCATIONAL SER-VICES, AS SUCH HIGHER LEVEL SERVICES ARE MOSTLY LOCATED IN THE DISTRICT TOWNS.

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- PROCUREMENT POSSIBILITIES

16. FOR THE PREPARATION OF FUTURE ROAD PROJECTS IN CEN-TRAL JAVA AND IN SOUTH, CENTRAL AND EAST KALIMANTAN, THE GOVERNMENT WILL APPOINT SUITABLY QUALIFIED FOREIGN CONSULTING FIRMS WHO HAVE CONSIDERABLE EXPERIENCE IN THE EXECUTION OF SIMILAR ASSIGNMENTS. THE SELECTION OF CON-SULTANTS FOR THESE SERVICES WILL BE IN ACCORDANCE WITH THE BANK'S GUIDELINES ON THE USES OF CONSULTANTS. ALL CONSULTANTS' SERVICES INCLUDED IN THE PROJECT WILL BE CARRIED OUT UNDER TERMS AND CONDITIONS SATISFACTORY TO THE BANK.

17. CIVIL WORKS WILL BE CARRIED OUT BY CONTRACTORS WHO

WILL BE ENGAGED BY THE GOVERNMENT ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDDING IN ACCORDANCE WITH THE BANK'S GUIDELINES FOR PROCUREMENT. THE CONTRACTORS WILL BE PRE-QUALIFIED ACCORDING TO PROCEDURES ACCEPTABLE TO THE BANK. U.S. FIRMS SHOULD BE INFORMED THAT TO ENSURE AN ADEQUATE RESPONSE FROM A SUFFICIENT NUMBER OF QUALIFIED CONTRACTORS, THE CIVIL WORKS HAVE BEEN TENTATIVELY DIVIDED INTO FIVE CONTRACT PACKAGES: I, GEMPOL-PROBOLINGGO (DOLS 8.388 MILLION), II, PROBOLINGGO-SITUBONDO (DOLS 7.362 MILLION), III, SITUBONDO-BANYUWANGI (DOLS 4.450 MILLION), IV, GRESIK-LAMONGAN, LAMONGAN-BABAT, AND WONOKROMO-KARANGPILANG (DOLS 8.969 MILLION), AND V, BABAT-BOJONOGORO, BOJONOGORO-CEPU, BABAT-NGIMBANG AND NGUWOK-KEDUNGPRING (DOLS 9.831 MILLION). THE CIVIL WORKS COMPONENT IS COMPRISED OF EARTHWORKS, DRAINAGE, STRUCTURES AND PAVEMENT ELEMENTS. QUALIFIED CONTRACTORS WOULD BE ELIGIBLE TO TENDER FOR ONE OR MORE OF THE CONTRACT PACKAGES. IT IS ANTICIPATED THAT LOCAL CONTRACTORS WILL SHOW INTEREST IN PARTICIPATING IN THE BIDDING.

18. THE CONTRACTS WILL BE AWARDED ON THE BASIS OF UNIT
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PRICES OF CONSTRUCTION FOR THE VARIOUS ITEMS OF CIVIL
WORKS AND THE CONTRACTORS ENGAGED FOR THE PROJECT WILL PRO

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VIDE ALL EQUIPMENT AND MATERIALS NEEDED FOR CONSTRUCTION. NO DIRECT PROCUREMENT OF CONSTRUCTION EQUIPMENT AND MATERIALS IS PROPOSED UNDER THE PROJECT. ALL CIVIL WORKS CONTRACTS WILL BE ENTERED ON TERMS AND CONDITIONS ACCEPTABLE TO THE BANK. IN ORDER THAT THE CONTRACTORS CAN COMMENCE THEIR WORK ON SCHEDULE, THE GOVERNMENT HAS ASSURED THAT IT WILL FACILITATE CUSTOMS CLEARANCE AND OTHER ENTRY FORMALITIES FOR EQUIPMENT AND MATERIALS BROUGHT INTO THE COUNTRY FOR THE PROJECT AS REQUIRED.

19. THE PROPOSED PROJECT APPEARS ECONOMICALLY AND TECHNICALLY FEASIBLE. USADB RECOMMENDS FAVORABLE NAC ACTION.

20. REQUEST AMEMBASSY JAKARTA COMMENTS FOR NAC AGENCIES, INFO USADB MANILA PURSUANT TO STATE 119795, DATED 3 JULY 1972. EDMOND

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Message Attributes

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